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No. 07-1026

IN THE

Supreme Court of the United States

PERFECT 10, INC.,
Petitioner,

v.

VISA INTERNATIONAL SERVICE ASSOCIATION, *ET AL.*,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

REPLY BRIEF IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

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REPLY BRIEF

Judge Kozinski was correct. The Ninth Circuit has made "some very new — and very bad — law here" and its "opinion will prove to be no end of trouble." Pet. App. 51a, 75a. The decision's consequences for the content industry are devastating, as the amicus briefs filed by organizations representing major copyright owners demonstrate. And the majority's legal analysis cannot be reconciled with secondary liability case law in other Circuits.

Unable to defend the panel majority's decision as written, respondents adopt a two-pronged approach. First, respondents disavow the majority's central holdings. Specifically, they label as "dicta" the majority's novel "other viable mechanisms" test and ignore the majority's decision to exclude economic considerations from the analysis of secondary liability under the Copyright Act. In so doing, respondents seek to obscure the true extent of the Ninth Circuit's departure from settled law and the Circuit conflict the decision creates. Second, respondents distort the practical implications of the Ninth Circuit's approach, ascribing to petitioner positions that it does not take and ignoring the conduct that sets respondents apart from utilities and other businesses providing routine services to direct infringers.

In the end, nothing in respondents' brief refutes petitioner's showing that this case merits this Court's review.

ARGUMENT

1. Respondents' principal arguments against review rest on mischaracterizations of the Ninth Circuit's holdings. First and foremost, respondents in a footnote label as mere dicta — and thereafter entirely ignore — the Ninth Circuit's pronouncement that material contribution liability cannot exist where "other viable mechanisms" could bring about the infringement to which the defendant has contributed. Opp. 7 n.3. The majority's opinion makes clear, however, that this was a central holding of the case:

> If users couldn't pay for images with credit cards, infringement could continue on a large scale because other viable funding mechanisms are available. ... [B]ecause infringement of Perfect 10's copyrights can occur without using Defendants' payment system, *we hold* that payment processing by the Defendants as alleged in Perfect 10's First Amended Complaint does not constitute a "material contribution" under the test for contributory infringement of copyrights.

Pet. App. 12a-13a (emphasis added); *see also* Pet. 11, 21. Thus, the result *in this case* turned on the availability of other viable mechanisms. Future litigants in the Ninth Circuit and elsewhere will plausibly contend that the "other viable mechanisms" rule is the law of that Circuit. Indeed, that is precisely why Judge Kozinski predicted "no

end of trouble" from the majority's ruling. Pet. App. 75a.

Second, respondents ignore that the Ninth Circuit has rendered economic considerations irrelevant to the secondary liability analysis. The majority held that providing direct infringers with financial support services, such as credit card processing, cannot give rise to liability for contributory infringement. Pet. 21; Pet. App. 10a-11a, 13a, 19a. And the majority held that the ability to quell infringement through economic pressure on direct infringers cannot give rise to vicarious liability, even when a defendant has the contractual right to exert such pressure. Pet. 21-22; Pet. App. 28a-29a, 31a & nn.17-18. These broad holdings significantly constrict the traditional scope of secondary liability for copyright infringement.

Without the Ninth Circuit's wholesale revision of copyright law, respondents' provision of payment services to known massive infringers would plainly constitute material contribution. First, the infringing material is delivered to the buyer only after respondents approve the transaction and process the payment. *Id.* at 45a (Kozinski, J., dissenting). Payment processing and the extension of credit to purchase the infringing goods thus are not tangential or incidental to the process of infringement; they are "an essential and critical step in the process." *Id.* Second, the centrality of payment processing to infringement is confirmed by the Copyright Act itself, which grants copyright owners the exclusive right to distribute copies "by sale." 17 U.S.C. § 106(3); Pet. App. 51a (Kozinski, J.,

dissenting). Respondents' brief ignores that "[i]t's not possible to distribute by sale without receiving compensation, so payment is in fact part of the infringement process." *Id.* (Kozinski, J., dissenting). Third, by requiring the infringing sites to display the Visa and MasterCard logos, the credit card companies provide these sites with a seal of approval, reassuring anxious buyers of the sites' legitimacy. Compl. ¶ 18 (Pet. App. 123a). Fourth, respondents earn a fee from every illegal transaction, and thus have a direct financial stake in the infringers' ventures. Pet. 6-7; Compl. ¶¶ 9-11, 13 (Pet. App. 120a-122a). Finally, the infringing businesses could not survive without respondents, who provide the payment services that are the lifeblood of the pirates' business model; it is respondents that make possible the worldwide distribution by sale of stolen intellectual property.[1] Thus, only by devising the "other viable mechanisms" test was the majority able to affirm

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[1] To support their contrary contention, respondents falsely claim that Perfect 10 was unable to accept credit cards, yet still operated a successful website. Opp. 29. In fact, the website perfect10.com has always had MasterCard and Visa credit card processing capability. Perfect 10 was not able to get Visa processing for its *new* websites launched in 2004, and those websites have failed. Compl. ¶ 84 (Pet. App. 145a).

In any event, the complaint specifically alleged that "[i]f [respondents] enforced their own rules" against infringing websites, those sites "would be eradicated." Compl. ¶35 (Pet. App. 129a); *see also* Pet. App. 53a; compare Opp. 7 n.3. Those allegations are controlling in the context of this motion to dismiss.

dismissal of Perfect 10's complaint. Otherwise, as stated by Judge Kozinski, "[t]his is an easy case." Pet. App. 75a.

When the focus is returned to what the Ninth Circuit actually held, the emptiness of respondents' argument against certiorari is plain.

Thus, for example, respondents argue for page after page that their conduct is not actionable under the standard addressed in *MGM Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005). Opp. 17-20, 24-25. But *Grokster* considered the circumstances under which a defendant can be liable for *intentionally inducing* infringement, 545 U.S. at 934-40. Although *Grokster* was decided on the basis of inducement, it left no doubt that a defendant could also be secondarily liable on other grounds. *Grokster* approvingly cited the seminal case of *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) — which held that a defendant is also liable for contributory infringement if he knowingly "materially contributes" to direct infringement — and gave no indication that it was supplanting this long-recognized basis for liability. *Gershwin*, 443 F.2d at 1162; *see Grokster*, 545 U.S. at 930. And the Court in *Grokster* stated outright that it was not considering vicarious infringement. *Id.* at 930 n.9. This case, unlike *Grokster*, involves allegations of material contribution and vicarious liability. Whether respondents have induced infringement is thus irrelevant.

Similarly unavailing are respondents' efforts to portray themselves as "tertiary" participants, far removed from the direct infringers. *E.g.*, Opp. 4, 13. What matters is not some elusive distinction between "secondary" and "tertiary" connections to infringement, but whether the defendant's contribution to the infringement is material. *See* Pet. App. 45a-46a (Kozinski, J., dissenting) ("Materiality turns on how significantly the activity helps infringement, not on whether it's characterized as one step or two steps removed from it."); *id.* at 53a. And, as explained above, respondents' contribution is material.[2]

Finally, when respondents' mischaracterizations of the Ninth Circuit's ruling are set aside, it is clear that that ruling conflicts with the law prevailing in other Circuits. To discuss just a few of the cases:

- In *Columbia Pictures Industries, Inc. v. Redd Horne, Inc.*, 749 F.2d 154 (3d Cir. 1984), the defendant's "advertising and promotional work" for the direct infringer was held to support liability for contributory infringement.

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[2] Moreover, respondents' suggestion that the defendants have only "tertiary" relationships with the direct infringers is incorrect. Respondents do not contest that the bank defendants have a direct relationship with the pirates, and other defendants were alleged to have such a relationship as well. Compl. ¶¶ 9-10, 12, 14, 15-20, 59-63 (Pet. App. 120a-124a, 137a-138a). To the extent these distinctions among defendants are disputed and relevant, they can "be sorted out after discovery." Pet. App. 43a n.2 (Kozinski, J., dissenting).

Id. at 161. That result is contrary to the Ninth Circuit's "other viable mechanisms" rule, because other mechanisms of promotion surely were available. And the Third Circuit's similar holding with respect to the defendant's "financial, accounting, and administrative services" contravenes the Ninth Circuit's ruling that activities that merely "make infringement more profitable" do not support liability. Pet. App. 11a.

- In *In re Aimster Copyright Litigation*, 334 F.3d 643 (7th Cir. 2003), the direct infringers could have reproduced the plaintiffs' music through mechanisms other than the peer-to-peer software at issue in the case. Nonetheless, the court upheld a preliminary injunction aimed at contributory infringement – a result inconsistent with the Ninth Circuit's "other viable mechanisms" rule.

- In *Gershwin*, the defendant took various steps to create an audience for the direct infringer's performance. These were efforts to merely "make infringement more profitable," Pet. App. 11a, yet the court upheld liability for contributory infringement. Moreover, the infringement could have taken place through other mechanisms, for the direct infringers could have performed the same works for audiences attracted in different ways. *Gershwin* also upheld liability for vicarious infringement even though the defendant "had no formal power to control" the direct

> infringers, 443 F.2d at 1163 – a result contrary to the Ninth Circuit's holding that the practical ability to limit infringement, such as by means of economic pressure, cannot establish vicarious liability.[3]

See also Pet. 31-37 (discussing other cases).

In short, no amount of obfuscation can hide the Ninth Circuit's sharp deviation from established law. As Judge Kozinski bluntly noted, "the majority leaves our law in disarray." Pet. App. 44a (Kozinski, J., dissenting).

2.a. Turning from legal to practical arguments, respondents contend that petitioner's position would result in liability for all providers of "but for" services to infringers, including utilities, janitorial services, and others. Opp. 13, 28-29. But that is not so. Respondents are far more deeply implicated in, and have far more extensive knowledge of, the business operations of pirate websites than do utilities or other providers of generic services. Among other things, (1) respondents review merchants' websites and businesses before allowing the merchants into their systems; (2) respondents' approval is needed for each infringing transaction; (3) respondents vouch for the infringers by requiring the Visa and MasterCard logos to be displayed; (4) respondents

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[3] Moreover, contrary to respondents' assertions, *see id.* at 20-21, it has long been clear that vicarious liability for copyright infringement is not limited to contexts in which respondeat superior would apply. *See, e.g.*, 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 12.04[A][2] & nn.77-80, at 12-81 to 12-82 (2007).

profit directly from each infringing transaction by receiving a percentage of each sale; and (5) respondents can, and have, directed merchants to alter or delete content on their websites. None of that is true for incidental services such as electricity and janitorial services.

To be sure, the task of identifying the appropriate "gatekeepers" for the purpose of secondary liability will raise line-drawing issues at the margins. But distinguishing janitors from those whose approval is a precondition to the infringing activity does not pose any difficult judgment calls. Indeed, one need only look at the U.S. Code for confirmation: Congress, when seeking to limit offshore Internet gambling, passed a statute mandating measures to block payment processing, but did not do the same for utilities, janitorial services, or any of the incidental services that all businesses use but that do not materially contribute to the illegal activity. 31 U.S.C. § 5364; *see also* Pet. App. 53a-55a (Kozinski, J., dissenting) (noting that courts have long been able to distinguish between material and immaterial contributions to infringement).

b. There is likewise no merit to respondents' complaint that the risk of secondary liability would impose an unfair burden or the cripple the nation's payment processing system.

First, respondents once again engage in mischaracterization when they claim that petitioner seeks to impose an affirmative duty to ferret out infringement. Opp. 14-15. As noted above, traditional contributory infringement liability

presupposes actual knowledge of the infringement. *See, e.g.*, *Gershwin*, 443 F.2d at 1162. Here, respondents scarcely mention that, as alleged in petitioner's complaint, they received specific and detailed notices describing obvious infringement at identified websites to which respondents provide payment processing services. Compl. ¶ 75 (Pet. App. 141a); *see id.* ¶¶ 31, 76-79 (Pet. App. 127a, 142a-143a); *see also* Pet. App. 96a-97a (district court noted that respondents did not dispute knowledge). In fact, the majority stated: "Perfect 10 alleges that it sent Defendants repeated notices specifically identifying infringing websites .... *Defendants admit receiving some of these notices, but they took no action in response* ... ." Pet. 2a-3a (emphasis added). Traditional contributory infringement rules do not require credit card companies to proactively monitor transactions for possible infringement. The rules require only that when such entities learn of infringement — from rights holders or otherwise — they must not continue to facilitate it.

Second, respondents are wrong to contend that petitioners seek to impose liability for a simple "failure to act." Opp. 22 (citing *Restatement (Second) of Torts* §§ 314-319). Rather, respondents are liable because they affirmatively provide vital payment processing services to known infringers and, thus, materially contribute to the infringement. *See, e.g.*, Compl. ¶¶ 8-12, 30-36, 92 (Pet. App. 120a-122a, 127a-130a, 147a). As for vicarious liability, respondents are liable because they profit from the infringement while asserting (but not exercising) power to control it. *See, e.g.*, Compl. ¶¶ 13-29, 93

(Pet. App. 122a-127a, 147a-148a).[4] Respondents are hardly innocent bystanders who fail to take affirmative steps to protect a person in peril. *See Restatement (Second) of Torts* § 314 cmt. c (1965).

Third, respondents' assertions about the burdens of "investigation" ring hollow because that is what respondents *are already required to do.* As the complaint makes clear, when respondents "learn of a merchant engaged in illegal, fraudulent, or otherwise improper business practices, their own regulations require them to cause member banks to investigate and, depending on the nature of the misconduct, terminate the merchants from the Visa and MasterCard systems." Compl. ¶ 20 (Pet. App. 124a). And, as is undisputed, respondents already perform similar tasks for illegal gaming and child pornography. Pet. 8, 27. Thus, respondents' real complaint is not that the requirements of secondary liability are too burdensome, but that respondents

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[4] Respondents also wrongly contend that petitioner seeks to ground vicarious liability solely on respondents' "provi[sion of] access to a payment network." Opp. 13. Petitioner alleged that infringing websites must enter formal merchant agreements with respondents; that these agreements require merchants to comply with all relevant laws; that these agreements require merchants to warrant that they have the right to sell the products they sell; that these agreements give respondents the right to suspend or expel merchants for engaging in illegal transactions; and that respondents' own regulations require them to investigate or terminate merchants suspected of engaging in such transactions. Pet. 7; Compl. ¶¶ 14-29 (Pet. App. 122a-127a).

want an exception from those requirements to preserve the lucrative revenue stream from infringing transactions. Nothing in the Copyright Act permits that result.

Finally, respondents' invocation of uncertainty and the prospect of unfounded accusations aimed at legitimate merchants is particularly misplaced. As in *Grokster* and *Napster*, there is no doubt about what these sites are up to. Virtually all of them deal openly in infringing material, with many offering full-length movies that are still in theaters, top-40 songs, and plainly copyrighted photos. Indeed, respondents already place many of the known infringing sites in a high-risk category and charge them higher fees. ER 106-10. There is thus no serious contention that the notices provided are a "mere accusation," Opp. 2, or that it is difficult for respondents to confirm that they are servicing blatant infringers.[5]

3. Finally, respondents fail to grapple with the dire harm that the Ninth Circuit's decision portends for the content industry. As set forth in the petition for certiorari and in the amicus brief of the MPAA, RIAA, and associations of photographers, artists, picture libraries, and publishers, offshore piracy is

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[5] Petitioner's complaint alleged that petitioner alerted respondents to over 240 websites "with obvious stolen content that [respondents] were supporting," Compl. ¶ 75 (Pet. App. 141a); *see id.* ¶¶ 31, 76-79 (Pet. App. 127a, 142a-143a). Petitioner sent respondents printouts, from the pirate websites, of infringing copies displaying Perfect 10's copyright notice.

rampant and, by the pirates' design, remains beyond the reach of U.S. courts and law enforcement. Pet. 1-2; Br. for Amici MPAA, *et al.* 19-20. The only avenue for content owners to combat offshore piracy is to pursue domestic entities that materially assist or can control it. Here, those entities are the credit card companies, whose services allow pirates to do business with U.S. customers without maintaining a physical presence in this country. The traditional law of secondary copyright infringement would allow rights holders to strike at infringement by pursuing respondents. But the Ninth Circuit's new secondary liability rules have left copyright owners powerless, and have placed offshore piracy beyond the effective reach of U.S. law. *See* Pet. 29-31.

To all of this, respondents' only answer is that content owners can obtain injunctions against the direct infringers, which respondents "expect" they would voluntarily obey. Opp. 33-34. But even that suggestion — whose sincerity is belied by respondents' persistent refusal to take action against known and obvious infringement — ignores that many online direct infringers register their sites using false names and addresses, are based in countries that refuse to enforce copyright protections seriously, or regularly change locations or domain names. *E.g.*, Compl. ¶ 6 (Pet. App. 119a-120a). In no way does respondents' "fix" provide a meaningful way of combating offshore piracy. Rather, it reflects a fundamental misunderstanding of the problem, and of the harm the Ninth Circuit's decision will cause if not reversed.